ANNUAL REPORT 2000.2001

Shermag inc.

OUR *mission*

Shermag's corporate mission is to produce the highest quality furniture available in the marketplace. While fully aware of the importance of assuring the Company's shareholders a positive return on their investment, Shermag's management is also concerned about offering fair working conditions to its 2,000 employees.

COMPANY *profile*

Shermag is a leader in the production and distribution of high-quality residential furniture. The Company enjoys an enviable reputation in the North American market and figures prominently in the design of contemporary-style furniture.

Shermag's facilities include a network of medium-size factories equipped with state-of-the-art technology. Vertical integration — from the forest to the retailer — gives the Company an exceptional competitive edge in a highly fragmented industrial sector. Three hardwood sawmills, a plant specializing in the fabrication of components, and a veneer plant all contribute to the efficiency of the Company's eleven furniture manufacturing facilities and to a lowering of production costs.

Shermag focuses on specific markets in the sale of its products. Major department stores in the United States and Canada, multiple-location chain stores specializing in the distribution of high-end furniture, as well as the best independent retailers comprise the Company's marketing targets.

IAL
ighlights

arch 31 2000	April 2 1999	April 3 1998	April 4 1997
54,328	128,134	109,438	88,584
44,391	120,594	103,887	84,244
23,444	100,245	81,887	62,973
80%	78%	75%	71%
46,319	38,383	34,025	28,590
16,665	13,105	13,098	9,597
25,373	19,519	18,256	14,183
11,106	8,704	9,507	6,468
08,774	13,284,674	13,282,674	11,232,674
0.84	0.66	0.78	0.60
0.83	0.66	0.78	0.57
5.79	4.96	4.31	1.99
7.00	9.30	18.25	12.70
8.4 x	14.1 x	23.4 x	22.2 x
42,735	131,556	107,382	75,686
37,299	31,057	32,969	15,094
12,205	13,224	12,760	18,114
76,976	66,378	57,662	22,799
17,912	14,186	12,252	9,795
0.01%	29.96%	31.09%	32.27%
7.20%	6.79%	8.69%	7.30%
6.44%	15.23%	16.68%	16.01%
.84 : 1	1.71 : 1	2.02 : 1	1.49 : 1
.16 : 1	0.20 : 1	0.22 : 1	0.79 : 1
16%	14%	24%	34%

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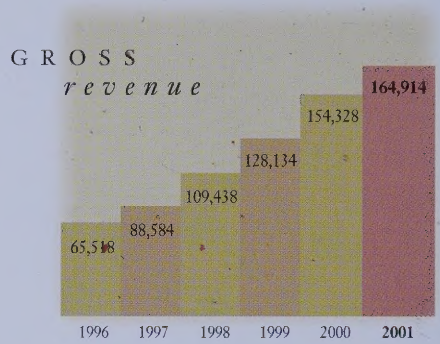
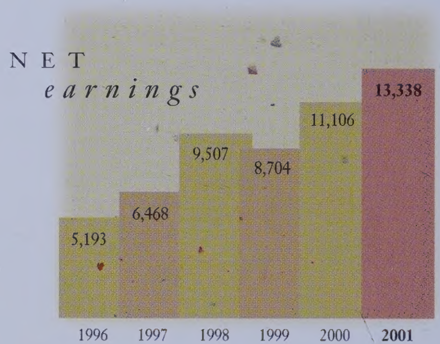
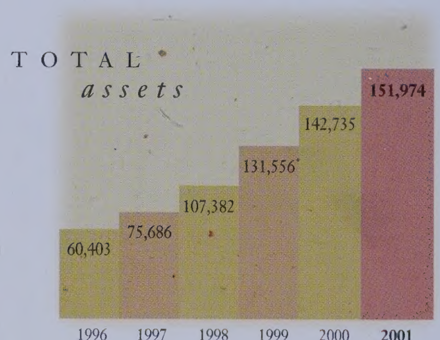


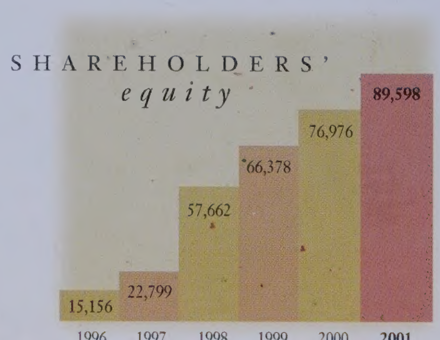
COMPOUND GROWTH RATE OVER FIVE YEARS: 20.3%



COMPOUND GROWTH RATE OVER FIVE YEARS: 20.8%



COMPOUND GROWTH RATE OVER FIVE YEARS: 20.3%



COMPOUND GROWTH RATE OVER FIVE YEARS: 42.7%

FINANCIAL *highlights*

Year ended (in thousands of dollars, except ratios and per share data)	March 30 2001	March 31 2000	April 2 1999	April 3 1998	April 4 1997
Operating results					
Gross revenue	164,914	154,328	128,134	109,438	88,584
Net revenue	153,746	144,391	120,594	103,887	84,244
Exports	128,821	123,444	100,245	81,887	62,973
Exports as % of gross revenue	78%	80%	78%	75%	71%
Gross profit excluding depreciation and amortization	48,436	46,319	38,383	34,025	28,590
Earnings before income taxes	19,731	16,665	13,105	13,098	9,597
Earnings before interest, taxes, depreciation and amortization (EBITDA)	28,744	25,373	19,519	18,256	14,183
Net earnings	13,338	11,106	8,704	9,507	6,468
Common shares outstanding at year end	13,184,474	13,208,774	13,284,674	13,282,674	11,232,674
Earnings per share results					
Net earnings	1.01	0.84	0.66	0.78	0.60
Diluted net earnings	1.00	0.83	0.66	0.78	0.57
Book value	6.76	5.79	4.96	4.31	1.99
Market price	7.00	7.00	9.30	18.25	12.70
Price earnings ratio	7.0 x	8.4 x	14.1 x	23.4 x	22.2 x
Financial situation					
Total assets [2]	151,974	142,735	131,556	107,382	75,686
Working capital	45,426	37,299	31,057	32,969	15,094
Long-term debt [1]	10,726	12,205	13,224	12,760	18,114
Shareholders' equity	89,598	76,976	66,378	57,662	22,799
Cash flow from operations	20,538	17,912	14,186	12,252	9,795
Ratios and returns					
Gross margin	29.37%	30.01%	29.96%	31.09%	32.27%
Net profit margin	8.09%	7.20%	6.79%	8.69%	7.30%
EBITDA margin	17.43%	16.44%	15.23%	16.68%	16.01%
Current ratio [2]	2.11 : 1	1.84 : 1	1.71 : 1	2.02 : 1	1.49 : 1
Long-term debt ratio	0.12 : 1	0.16 : 1	0.20 : 1	0.22 : 1	0.79 : 1
Return on equity	16%	16%	14%	24%	34%

(1) Excluding portion due within one year but including redeemable preferred shares
(2) After reclassification of accruals for advertising and volume rebate in deduction of accounts receivable

MESSAGE *to shareholders*

2000-2001 fiscal year

Fiscal 2000-2001 was another in a series of successful years for Shermag. The Company recorded growth of close to 11% in furniture sales, as well as an overall increase in profits of more than 20%. These figures are a direct result of strong divisional and corporate management and of our customers' loyalty. We are particularly pleased in that these results were achieved in a rather difficult economic climate.

In the past fiscal year, Shermag had gross sales of $164,914,000 in its two major areas of activity: furniture and sawmills. This represents an increase of 6.9% over the previous year. Earnings before income taxes were $19,731,000, compared with $16,665,000 the year before.

In the past four years, Shermag's sales and earnings have doubled solely as a result of internal growth. This steady progress has allowed the Company to significantly reduce its debt and bring the debt ratio down to 0.12:1 from 0.79:1 over the same period.

A year marked by caution

In the fiscal year just ended, Shermag's management acted with caution in anticipation of a temporary reduction in demand for consumer goods in the United States. At the time the 2000-2001 budget was being developed, the North American economy was showing signs of slowing down. Shermag's management adopted a prudent approach to developing expansion and acquisition projects. This included the postponement of the opening of its new Victoriaville furniture plant as well as other expansion projects planned for other plants in the network.

This approach was reflected in the more efficient use of existing capacities and stringent inventory control. All divisions, with the exception of the sawmills, succeeded in increasing production by nearly 12% — representing a value of nearly $17 million — using the same tools as the year before. In addition, inventories of furniture were reduced by 9.5%.

Only three investment projects were undertaken: the expansion of the veneer plant, the launch of the new Shermag Leather division, which produces leather living room furniture in Saint-Léonard (Québec), and improvements to the Company's exhibition hall in High Point, North Carolina. These initiatives had only a minor impact on the Company's sales in the past fiscal year, but are expected to impact results in the coming years.

Management believes that these decisions have proven timely and will continue cautiously until increased demand is evident. Based on current forecasts, the Company could return to a more aggressive rate of capital investment in the upcoming fiscal year.

Sustained marketing efforts

Shermag continued to make extensive marketing efforts to maintain its growth in the Canadian and U.S. markets. This was done without compromising the merchandising strategies that have made it successful in the past.

According to a survey of 300 American furniture retailers conducted for Shermag by the Home Furnishings Research Group, Shermag had "the top rating of both value perception (quality/price ratio) and awareness of its customers' needs." This detailed study provided an extremely positive view of Shermag and is very encouraging for the future.

Based on this study, Shermag's management took action to broaden its market coverage. While continuing to serve its traditional clientele, the Company oversaw the development of collections destined for new market segments, with new styles and pricing structures. At the most recent exhibition in April 2001 at the High Point International Furnishings Market in North Carolina, the Company presented its broadest product line ever. These high quality furniture collections, displayed in Shermag's new permanent exhibition hall of more than 25,000 square feet, attracted enormous interest from new customers whom we have had difficulty reaching in the past.

In the current fiscal year, we will intensify these efforts to diversify our clientele, while maintaining our exclusivity policy for the retailers who have always supported the Company.

The Shermag model

In management terms, the most significant event of the past fiscal year was undoubtedly the transfer of power to a new generation of managers represented by Jeff Casselman. Mr. Casselman joined Shermag in August 2000 and became its President and Chief Executive Officer in April. Serge Racine continues to serve as Chairman of the Board.

After nearly 25 years at the helm of the Company he founded, Mr. Racine is stepping down from daily operations with a deep sense of satisfaction and pride, and with the certain knowledge that the reality has significantly surpassed his 1977 dream. In a quarter century, the Company has become an industry model in North America. The Shermag name has become synonymous with quality, service and integrity. The Company's customers include some of the best-known retailers in Canada and the United States.

Supported by an experienced management team and 2,000 skilled and dedicated employees who are its most valuable asset, Shermag is in excellent financial health and its development prospects are more promising than ever.

Shermag's corporate mission is to produce the highest quality residential furniture available in the marketplace. While fully aware of the importance of assuring the Company's shareholders a positive return on their investment, Shermag's management is also concerned about offering fair working conditions to its employees. It is in this sense that the "Shermag model" will continue to serve as the Company's golden rule for the future.

Acknowledgements

We would like to express our deepest appreciation to our customers, our shareholders and our employees. Without their involvement and staunch support, the Company would only be "going through the motions." It is our quest to maintain a delicate balance between each of these partners that makes our role as managers so exciting.

We sincerely hope that this balance has again been maintained to the satisfaction of all stakeholders. We will continue to draw on our energy and motivation with the renewed confidence they have shown in us.

Finally, we wish to express our heartfelt gratitude to the members of the Board of Directors, who, once again this past year, graciously provided us with their wise and always valuable counsel.

Serge Racine, Chairman of the Board

Jeffrey K. Casselman, President and Chief Executive Officer

REVIEW *of operations*

In fiscal 2000-2001, Shermag welcomed Jeff Casselman, who as the new President and Chief Executive Officer has taken over day-to-day management of the Company's operations. Much care was taken to meet the challenges of a smooth and effective transition.

The transition took the form of a progressive transfer of responsibilities to Mr. Casselman from the Company's founder, Serge Racine, and was conducted in an atmosphere of co-operation and commitment to continuity. The transfer of knowledge, the development of working relationships with managers and personnel, as well as an initiation to the various workings of the Company, have now been completed. This complex process has been an unqualified success.

Our people serving our customers

More than ever, Shermag's strength is in its human resources. Again this year, the knowledge, innovation and entrepreneurial spirit of the people who make up our divisions enabled us to meet the challenges of sustained growth.

In the past fiscal year, considerable efforts were made to improve customer service. Multidisciplinary, customer-focused teams were created to establish a link to the Company's principal clients. These teams, comprising people from our planning, sales and customer service departments, developed a management system that enables Shermag to use EDI technology to improve forecasting, planning and on-time delivery, and to help its customers better manage their inventories and in-store customer service.

Initiatives like this resulted in Shermag recently being awarded the prestigious *Marshall Field's Vendor Excellence Award* for its exceptional performance in 2000.

This ability to respond promptly and efficiently to the needs of our customers will continue to set the Company apart, particularly in the face of growing competition from Asia and South America.

Shermag's past fiscal year also equipped the Company with the elements necessary to maintain its growth, in particular with the start-up of the new Shermag Leather division, the expansion of the veneer plant and the launch of our new *Avignon*, *Châteauneuf*, *Cosmopolitan*, *Jellybeans* and *Metro* collections. Despite softer demand in the United States, these new products were immensely successful with our clients at the High Point International Furnishings Market last spring.

A well-focused marketing strategy

Shermag continued to provide product exclusivity to its retail partners in fiscal 2000-2001. This policy of exclusivity ensures that its customers do not have to compete amongst themselves and encourages them to promote the Company's products.

Early in 2001, the Company began a more dynamic strategy to promote Shermag's presence in large independent furniture stores. This distribution channel offers Shermag a significant growth opportunity. This strategy features the launch of new collections that are exclusive to this customer category, a sales training program and a new communication strategy initiated during the April 2001 High Point Market.

Vertical integration

Over the years, Shermag has earned a solid reputation as a profitable business partner, largely because of its ability to offer high quality products at very competitive prices.

This value proposition is the direct result of its vertical integration strategy, which enables cost control at each step of the supply chain, from logging trees to the time the finished product is shipped to the Company's retail partners.

The Shermag system is designed to supply its furniture plants with raw materials at a cost well below market prices. Although performance in the sawmills during the year was below expectations, the Company nevertheless enjoyed a cost advantage that it would not have realized had it purchased its wood on the open market.

Similarly, the Company's veneer plant also allowed Shermag to procure high quality veneers at advantageous costs.

Shermag's management is convinced that its competitive advantage is a direct result of the vertical integration strategy, and it remains solidly committed to this approach.

DIVISIONS IN FULL GROWTH

Nadeau Division

The Nadeau Division, with its two plants in the New Brunswick cities of Saint-François-de-Madawaska and Edmundston, has experienced sustained growth over the last 10 years with the manufacturing of its well-known *Atlantic* collection.

This division maintained its momentum in fiscal 2000-2001, with particularly outstanding results attributable to significant efficiency improvements and strict cost control.

The Nadeau Division embarked upon a new expansion phase with its recent introduction of the *Avignon* and *Châteauneuf* collections, both of which promise to be very successful in the coming years. This new product line will help the division reach a clientele that is more diversified than its traditional market.

HPL Division

The HPL plant in Victoriaville (Québec) is primarily devoted to production of the *Héritage* collection. *Héritage* is the most popular of Shermag's extensive range of products.

After a difficult 1999-2000, HPL is back on the growth track due to the success of the new *Orléans* collection, which is destined to become very popular among Shermag's independent furniture store customers.

Scotstown Division

The Scotstown Division manufactures modern and contemporary style furniture at its plants in Scotstown, Bishopton and Disraéli (Québec).

Once again this year, Scotstown registered an impressive performance, with significant sales and profit growth. These excellent results are primarily attributable to the experience and efficiency of its veteran production teams.

The Scotstown Division, which produces the successful *Bourbon Street* and *Florence* collections, recently launched two new collections — *Cosmopolitan* and *Metro*. With such a diversified range of quality furniture products, Scotstown continues to anticipate strong growth.

Bédard Division

With three plants in St-Étienne-de-Lauzon, Granby and Bécancour (Québec), the Bédard Division specializes in manufacturing dining room furniture.

After overcoming problems experienced when the plants were first started, the division has gained stability and efficiency. In 2000-2001, Bédard recorded excellent results which compare well with those of Shermag's other divisions.

But the highlight for the division during the past fiscal year was its transition to manufacturing a line of higher quality products. With the launch of its new *Arts & Crafts*, *Cordoba*, *Directoire*, *Montmartre*, *Orientation* and *Studio* collections, it is now producing furniture that is more expensive than its traditional lines. The products, which are proving popular in both Canada and the United States, allow the Company to anticipate exciting developments for these three plants.

Chandéric/Conant Ball Division

The Chandéric/Conant Ball Division, which manufactures our glider rockers at its plant located in Lennoxville (Québec), had an excellent year, with a significant growth in both sales and profitability.

These successes are mainly the result of the dynamic approach of the division's management team, which has demonstrated a capacity to attract new customers and profitably manage growth.

There is every indication that the glider rocker market is currently experiencing a strong surge in popularity in the United States. Shermag is well positioned to take advantage of this trend and expects continued growth of the Chandéric/Conant Ball Division.

Sofas International

Sofas International manufactures high quality contemporary upholstered furniture at its Saint-Léonard (Québec) plant.

This division, created three years ago, is experiencing growth that is sharply higher than that of Shermag's other divisions and of the industry as a whole. Sofas International had sales growth of nearly 50% in 2000-2001. These results are explained by the innovative quality of its products, which are targeted at 25 to 45 year old consumers.

Following on the heels of the extraordinary success of its main product, *Caméléon*, Sofas International recently launched *Jellybeans* which, Shermag management believes, offers the same potential for rapid growth.

Shermag Leather

The newest of the Company's divisions, Shermag Leather manufactures leather-and-wood living room furniture at its plant in Saint-Léonard (Québec). The new division benefits from both Shermag's unmatched knowledge in the fabrication of wood furniture and its positioning in major North American markets.

The designs of Shermag Leather's furniture are styled to blend with Shermag's classic collections, in order to fit the total environment concept favoured by American consumers.

Management believes this division has excellent growth potential because its products appeal to the loyalty of existing customers.

Placages Lennox

The Placages Lennox plant is a key link in the chain that supplies the Shermag network of furniture factories. It provides most of the veneer components used in the furniture made by the Nadeau, Scotstown and Bédard divisions. Placages Lennox is also an important element in Shermag's vertical integration strategy, ensuring that the furniture plants are able to obtain the veneer they need at costs below market rates.

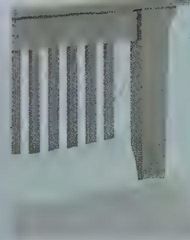
During fiscal 2000-2001, nearly $3 million was invested in an expansion that added 25,000 square feet of floor space, tripling the size of the plant and significantly increasing its production capacity. When the staff will be fully trained and experienced with the new technologies, Placages Lennox will be able to quadruple its production.

Mégabois/Montauban/Woodtek

Shermag's sawmills produce the hardwood needed to supply the Company's network of furniture factories. Located at Lac-Mégantic and Notre-Dame-de-Montauban (Québec) and North Anson (Maine), the sawmills can produce nearly 30 million board feet of maple, cherry, birch and oak hardwood.

These sawmills are a very important element in the Shermag supply chain, with nearly 70% of their production used to supply the Company's factories. They make a crucial contribution to the Company's ability to produce very high quality furniture at prices below those of the competition.

In 2000-2001, the sawmills experienced some difficulty in the areas of log supply and mill conversion efficiencies. A program to improve log procurement and production efficiencies has been implemented and is expected to produce results in 2001-2002.



MANAGEMENT'S

Discussion and Analysis of Operating Results and Financial Position

Operating results: Gross revenues for the fiscal year ended March 30, 2001, were $164.9 million, an increase of 6.9% over sales for the previous year. Canadian sales grew by 16.9% and sales in the United States rose by 4.4%.

The Company's gross margin declined slightly, from 30.0% to 29.4% of gross revenues. The current economic situation encourages customers to demand larger discounts on the sale price of our products and, as a result, we were deprived of 0.3% of the gross margin. Furthermore, the sawmill division did not meet the Company's financial expectations. During the year, this sector experienced instability in the wood supply, conversion inefficiencies and an abnormal personnel turnover in key operating and management positions. The shortfall over the last year was close to $1.5 million, which affected the gross margin by almost 1%. Management views recovery of this sector of activity as imperative during the current fiscal year.

It should be mentioned that all divisions improved both their sales and profitability during the year.

The Company's sales and administrative expenses for the fiscal year ended March 30, 2001, were $21.7 million (13.14% of revenue), compared with $19.9 million (12.29% of revenue) for the previous year. The economic slowdown that reduced anticipated sales growth for the year resulted in a slight increase in this percentage.

The Company reduced its average annual use of credit facilities, therefore cutting its interest costs. The Company also benefited from a gain on the exchange rate associated with its forward foreign exchange contracts. The result was a reduction in financial expenses from 2.44% of gross revenues in 1999-2000 to 0.3% in 2000-2001.

Depreciation and amortization expenses for the year increased by 9.4%. This is a result of a strong investment program in recent years in fixed assets and in business and product development. These investments were necessary to increase the Company's production capacity to allow continued sales growth, and to develop new collections and open new markets.

At year end, the Company reported net earnings of $13.3 million (8.1% of gross revenues) compared with $11.1 million (7.2% of gross revenues) for the previous fiscal year, representing an increase of 20%.

Cash flow and financial position

The Company's operations in the year ended March 30, 2001, generated cash flow of $15.6 million.

The primary use of cash generated was for capital expenditures of $7.9 million. These included expansion of the veneer facility at a cost of $2.7 million, upgrading of the exhibition hall at High Point at a cost of $1 million, investments of $0.3 million in machinery for the start-up of the leather furniture project and computer equipment was upgraded at a cost of $0.6 million. The remainder was technology improvements at the various plants.

In addition to the capital investment program, cash was used for the development of new products ($1.2 million), the acquisition of promotional tools ($1.3 million), to pay costs ($0.4 million) incurred during the period prior to the start of operations at our new leather furniture plant, and for costs related to the opening of our new distribution centre in Sherbrooke.

Finally, an amount of $0.8 million went to reimburse the long-term debt in accordance with banking agreements. The Company's long-term debt ratio continues to improve and was 0.12:1 at year-end.

Working capital increased by 22% to $45.4 million at the end of the fiscal year. The working capital ratio of 2.11:1 for fiscal 2000-2001, compares favourably with 1.84:1 the previous year.

At March 30, 2001, a significant inventory of logs and lumber resulted in increased bank loans of approximately $5 million over the previous year's level. This decision provides insurance against a potential hardwood shortage which is made possible by a slowdown in the softwood sector.

At year-end, total assets were approximately $152 million and shareholders' equity was $89.6 million. At the close of trading on the Toronto Stock Exchange on March 30, 2001, shares were trading at $7, the same level as a year earlier. This represents a price/earning ratio of 7x earnings.

The book value of the Company's common shares was $6.76 at March 30, 2001.

Risks and uncertainties

Optimizing supply and demand will remain one of the Company's major challenges in the coming year in its efforts to better satisfy increasingly demanding customers within a context of economic uncertainty.

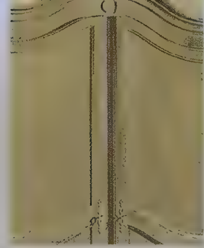
The Company has concluded forward foreign exchange contracts in an attempt to protect itself against fluctuations in the value of the U.S. currency that could affect the profit margin. At March 30, 2001, compared with exchange rates on this date for similar contracts, the Company was in an unfavourable position. This can change with short-term fluctuations in the value of the U.S. dollar.

Outlook

The economic situation requires the Company to focus its strategy even more closely on its production and quality-improvement programs in order for it to continue to stand apart in the highly competitive North American market and to sustain the growth in profitability that its shareholders expect.

Josée Girard

Josée Girard, CA
Comptroller



MANAGEMENT'S *Report*

Shermag Inc.'s consolidated financial statements for the years ended March 30, 2001 and March 31, 2000 and the financial information included in this annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and with the policies set forth in the notes to said statements.

The Audit Committee of the Board is responsible for reviewing the consolidated financial statements in detail, for ensuring that the Company's internal control systems, management policies and accounting practices are adhered to, and for recommending approval of the consolidated financial statements to the Board of Directors.

The chartered accountants, Raymond Chabot Grant Thornton, have audited the consolidated financial statements which appear hereinafter and their report indicates the extent of their audit and their opinion on said consolidated financial statements.

Serge Racine
Chairman of the Board

Josée Girard, CA
Comptroller

AUDITORS' *Report*

To the Shareholders of Shermag Inc.

We have audited the consolidated balance sheets of Shermag Inc. as at March 30, 2001 and March 31, 2000 and the consolidated statements of earnings, retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 30, 2001 and March 31, 2000 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Raymond Chabot Grant Thornton

General Partnership, Chartered Accountants
Sherbrooke, May 21, 2001

CONSOLIDATED FINANCIAL STATEMENTS 2000.2001

Shermag inc.

CONSOLIDATED *Earnings*

Years ended March 30, 2001 and March 31, 2000
(Amounts in thousands of dollars, except earnings per common share)

	2001-03-30	2000-03-31
	$	$
Gross revenue	**164,914**	154,328
Less: returns, allowances and discounts	**11,168**	9,937
Net revenue	**153,746**	144,391
Cost of sales	**105,310**	98,072
Gross profit excluding depreciation and amortization	**48,436**	46,319
Selling and administrative expenses	**21,671**	19,896
Financial expenses	**473**	3,761
Depreciation and amortization	**6,561**	5,997
	28,705	29,654
Earnings before income taxes	**19,731**	16,665
Income taxes (Note 6)	**6,393**	5,559
Net earnings	**13,338**	11,106
Net earnings per common share	**1.01**	0.84
Diluted net earnings per common share	**1.00**	0.83
Average weighted number of common shares	**13,193,298**	13,276,097

The accompanying notes are an integral part of the consolidated financial statements.

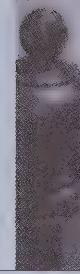
CONSOLIDATED *Retained Earnings*

Years ended March 30, 2001 and March 31, 2000
(Amounts in thousands of dollars)

	2001-03-30	2000-03-31
	$	$
Balance, beginning of year	**39,340**	28,532
Change in accounting policy (Note 3)	**546**	
Adjusted opening balance	**38,794**	28,532
Net earnings	**13,338**	11,106
	52,132	39,638
Premium on redemption of common shares	**102**	298
Balance, end of year	**52,030**	39,340

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED *Cash Flows*



Years ended March 30, 2001 and March 31, 2000
(Amounts in thousands of dollars)

	2001-03-30	2000-03-31
	$	$
OPERATING ACTIVITIES		
Net earnings	**13,338**	11,106
Non-cash items		
Amortization of deferred credits	**(248)**	(268)
Other depreciation and amortization	**6,561**	5,997
Future income taxes	**887**	
Deferred income taxes		1,077
Changes in working capital items (Note 5)	**(4,945)**	(4,832)
Cash flows from operating activities	**15,593**	13,080
INVESTING ACTIVITIES		
Business acquisition (Note 7)		(369)
Fixed assets	**(7,958)**	(7,316)
Disposal of fixed assets	**17**	60
Deferred charges	**(2,863)**	(1,782)
Deferred credits		16
Cash flows from investing activities	**(10,804)**	(9,391)
FINANCING ACTIVITIES		
Net change in bank loans and acceptances	**(6,883)**	1,940
Long-term loans		49
Instalments on long-term debt	**(776)**	(2,684)
Issue of shares		7
Redemption of shares	**(170)**	(515)
Cash flows from financing activities	**(7,829)**	(1,203)
Net increase (decrease) in cash and cash equivalents	**(3,040)**	2,486
Cash and cash equivalents, beginning of year	**789**	(1,697)
Cash and cash equivalents, end of year	**(2,251)**	789

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED *Balance Sheets*

March 30, 2001 and March 31, 2000
(Amounts in thousands of dollars)

	2001-03-30	2000-03-31
	$	$
ASSETS		
Current assets		
Cash		789
Accounts receivable (Note 8)	**33,180**	31,065
Income taxes receivable	**274**	
Inventories (Note 9)	**52,157**	49,104
Prepaid expenses	**750**	842
Future income taxes (Note 6)	**42**	
	86,403	81,800
Fixed assets (Note 10)	**61,119**	57,741
Other assets (Note 11)	**4,059**	3,194
Future income taxes (Note 6)	**393**	
	151,974	142,735
LIABILITIES		
Current liabilities		
Outstanding cheques	**2,251**	
Bank loans and acceptances (Note 12)	**20,127**	27,010
Accounts payable and accrued liabilities	**15,793**	14,972
Income taxes payable	**1,296**	1,712
Instalments on long-term debt	**1,510**	807
	40,977	44,501
Long-term debt (Note 13)	**10,726**	12,205
Future income taxes (Note 6)	**6,980**	
Deferred income taxes		5,112
Deferred credits (Note 14)	**3,693**	3,941
	62,376	65,759
SHAREHOLDERS' EQUITY		
Capital stock (Note 15)	**37,568**	37,636
Retained earnings	**52,030**	39,340
	89,598	76,976
	151,974	142,735

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board,

Serge Racine
Director

Arthur P. Earle
Director

NOTES TO CONSOLIDATED *Financial Statements*

March 30, 2001 and March 31, 2000
(Amounts in the tables are in thousands of dollars)

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

The Company, incorporated under Part IA of the Companies Act (Québec), manufactures furniture.

2 - ACCOUNTING POLICIES

Principles of consolidation

The financial statements include the accounts of the Company and its wholly-owned subsidiaries.

Cash and cash equivalents

The Company's policy is to present cash and temporary investments having a term of less than three months from the acquisition date with cash and cash equivalents.

Inventory valuation

Finished goods and goods in process are valued at the lower of cost and net realizable value. Cost is determined by the average cost method.

Raw materials and supplies are valued at the lower of cost and replacement cost. Cost is determined by the first in, first out method.

Depreciation and amortization

Fixed assets are depreciated over their estimated useful lives according to the following methods, periods and annual rates:

	Methods	Periods and rates
Buildings	Straight-line	40 years
Machinery and equipment	Diminishing balance	10%
Rolling stock, software	Diminishing balance	30%
Office furniture	Diminishing balance	20%
Leasehold improvements	Straight-line	5 years
Forestry properties	Straight-line	25 years

Deferred charges are amortized according to the straight-line method over periods not exceeding five years.

Goodwill represents the excess of cost over the fair value of net assets acquired, and is amortized according to the straight-line method over a period of ten years until 2003. The valuation and amortization of goodwill are revised regularly by management to ensure that no decrease in the value has occurred, by comparing the accounting value with the non-actualized future cash flows generated by those assets.

Deferred credits represent government grants and investment tax credits resulting from the acquisition of fixed assets. The grants and tax credits are accounted for as deferred credits and amortized according to the same annual methods and rates as the assets to which they relate are depreciated.

Income taxes

The Company uses the tax liability method to account for income taxes. Under this method, future tax assets and liabilities are determined according to differences between their respective carrying amounts and tax bases. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to be recovered or settled.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of the contingent assets and liabilities and the reported amounts of revenue and expenses. Actual results could differ from these estimates.

Earnings per common share

The calculation of basic net earnings per common share is based on the weighted average number of outstanding shares during the years. The fully diluted net earnings per common share take into account all elements having a possible dilution effect.

NOTES TO CONSOLIDATED *Financial Statements*

March 30, 2001 and March 31, 2000

(Amounts in the tables are in thousands of dollars)

2 - ACCOUNTING POLICIES (continued)

Stock option plan

No equity sharing expense is recognized when stock options are issued under the Company's stock option plan. Any consideration paid on exercise of stock options will be credited to capital stock.

Foreign currency translation

Monetary assets and liabilities in foreign currency are translated at exchange rates in effect at the balance sheet dates, whereas other assets and liabilities are translated at exchange rates in effect at transaction dates. Revenue and expenses in foreign currency are translated at the monthly average rate in effect, with the exception of depreciation, which is translated at the historical rate. Gains and losses are included in the earnings for the years.

Assets and liabilities of the self-sustaining foreign subsidiary are translated into Canadian dollars at the exchange rate in effect at the balance sheet dates. Revenue and expenses are translated at the average rate in effect during the years. Gains and losses are included in the "Accumulated exchange adjustments" account of the shareholders' equity, if applicable.

Forward exchange contracts

The Company enters into foreign exchange contracts to manage its currency risk exposure. These financial instruments are presented at cost. Positions hedged by foreign exchange contracts are converted using the contract rate and the gains or losses are recognized to earnings during the years in which the revenue or expenses resulting from the corresponding hedged position are recorded.

3 - CHANGE IN ACCOUNTING POLICY

During the year ended March 30, 2001, the Company adopted, on a retroactive basis, the new recommendations issued by the Canadian Institute of Chartered Accountants with respect to income taxes. However, it did not restate the financial statements for previous years. Under the new standards, the Company uses the liability method to recognize and measure future income tax assets and liabilities. In the past, the Company used the deferral method tax allocation of accounting. This change in accounting policy resulted in a $546,205 decrease to retained earnings at beginning of year and had no significant effect on net earnings for the year ended March 30, 2001.

4 - INFORMATION INCLUDED IN THE STATEMENT OF EARNINGS

	2001-03-30	2000-03-31
	$	$
Depreciation of fixed assets	**4,563**	4,397
Amortization of deferred charges	**1,944**	1,546
Amortization of goodwill	**54**	54
Amortization of deferred credits	**248**	268
Interest on short-term debt	**1,518**	1,805
Interest on long-term debt	**934**	906
Loss (gain) on foreign exchange	**(1,979)**	1,050

5 - INFORMATION INCLUDED IN THE STATEMENT OF CASH FLOWS

The changes in working capital items are detailed as follows:

	2001-03-30	2000-03-31
	$	$
Accounts receivable	**(2,115)**	(2,175)
Inventories	**(3,053)**	(3,741)
Prepaid expenses	**92**	(205)
Accounts payable and accrued liabilities	**821**	(378)
Income taxes payable	**(690)**	1,667
	(4,945)	(4,832)

Cash flows relating to interest and income taxes on operating activities are detailed as follows:

	2001-03-30	2000-03-31
	$	$
Interest paid	**2,803**	2,555
Income taxes paid	**6,196**	2,815

NOTES TO CONSOLIDATED *Financial Statements*

March 30, 2001 and March 31, 2000
(Amounts in the tables are in thousands of dollars)

6 - INCOME TAXES

a) Provision

	2001-03-30	2000-03-31
	$	$
Income taxes are detailed as follows:		
Current	**5,506**	4,482
Future	**887**	
Deferred		1,077
	6,393	5,559

The difference between the Company's effective income tax rate and the combined Federal and Provincial income tax rate in Canada is explained as follows:

	2001-03-30	2000-03-31
	%	%
Combined Federal and Provincial income tax rate in Canada	**39.6**	39.6
Manufacturing and processing profits deduction	**(6.8)**	(6.8)
Permanent differences and other	**(0.4)**	0.6
Company's effective income tax rate	**32.4**	33.4

b) Future tax assets and liabilities

Future taxes reflect the net impact of timing differences between the value of assets and liabilities for accounting and tax purposes. The main components of the Company's future tax assets and liabilities as at March 30, 2001 were as follows:

	2001-03-30
	$
Future tax assets	
Provision deductible for tax purposes only at the time of the disbursement	**42**
Losses carry-forward for tax purposes	**393**
	435
Future tax liabilities	
Book value in excess of tax basis	
Fixed assets	**6,475**
Deferred charges	**505**
	6,980

The future income tax asset resulting from allowable capital losses is not recorded in the financial statements. These losses amount to $1,797,000 and may be carried-forward and applied against taxable capital gains over an indefinite period.

7 - BUSINESS ACQUISITION

On October 2, 1999, the Company increased to 100% its share in a joint venture, Scierie Montauban Inc., which operates a hardwood sawmill, for an amount of $600,000 in cash.

This acquisition is accounted for according to the purchase method. The results of operations since the date of acquisition have been included in these consolidated financial statements. The above-mentioned net operating assets acquired are detailed as follows:

	2000-03-31
	$
Current assets	435
Fixed assets	1,024
Deferred income taxes	97
Current liabilities	(212)
Long-term debt	(744)
Acquisition cost	600
Cash and cash equivalents acquired	(231)
Decrease in cash and cash equivalents following this acquisition	369

NOTES TO CONSOLIDATED *Financial Statements*

March 30, 2001 and March 31, 2000
(Amounts in the tables are in thousands of dollars)

8 - ACCOUNTS RECEIVABLE

	2001-03-30	2000-03-31
	$	$
Trade accounts		
Canada	**7,128**	5,998
United States	**24,518**	23,339
	31,646	29,337
Sales taxes receivable	**987**	1,108
Others	**547**	620
	33,180	31,065

80% of the United States trade accounts receivable are secured by a global multirisk insurance policy upon shipping (88% in 2000).

9 - INVENTORIES

	2001-03-30	2000-03-31
	$	$
Finished goods	**19,984**	22,075
Goods in process	**12,937**	12,681
Raw materials	**17,768**	12,799
Supplies	**1,468**	1,549
	52,157	49,104

10 - FIXED ASSETS

			2001-03-30
	Cost	**Accumulated depreciation**	**Net**
	$	**$**	**$**
Land	**2,175**		**2,175**
Buildings	**30,127**	**4,841**	**25,286**
Machinery and equipment	**42,218**	**15,400**	**26,818**
Rolling stock	**1,463**	**845**	**618**
Office furniture	**5,641**	**3,465**	**2,176**
Software	**4,585**	**2,014**	**2,571**
Leasehold improvements	**1,018**	**112**	**906**
Forestry properties	**696**	**127**	**569**
	87,923	**26,804**	**61,119**

			2000-03-31
	Cost	Accumulated depreciation	Net
	$	$	$
Land	2,150		2,150
Buildings	27,168	4,155	23,013
Machinery and equipment	39,213	12,872	26,341
Rolling stock	1,214	704	510
Office furniture	5,263	3,041	2,222
Software	4,224	1,357	2,867
Leasehold improvements	454	411	43
Forestry properties	696	101	595
	80,382	22,641	57,741

NOTES TO CONSOLIDATED *Financial Statements*

March 30, 2001 and March 31, 2000
(Amounts in the tables are in thousands of dollars)

11 - OTHER ASSETS

	2001-03-30	2000-03-31
	$	$
Deferred charges, at amortized cost		
New product development costs	**1,574**	1,132
Pre-operating costs	**850**	673
Promotional tools	**1,440**	1,112
Financing charge	**88**	116
	3,952	3,033
Goodwill, at amortized cost	**107**	161
	4,059	3,194

12 - BANK LOANS AND ACCEPTANCES

The Company has total authorized operating credits of $32,500,000, which can be used as bank loans or acceptances. These amounts can be drawn out in Canadian or American dollars. The bank loans bear interest at prime rate or US prime rate, and this rate is reviewed on a quarterly basis. The bank acceptances are at the market rate. The operating credits are established for a three-year term, renewable on September 30 of each year for an additional year and are subject to the restrictions mentioned in Note 13 (*).

13 - LONG-TERM DEBT

	2001-03-30	2000-03-31
	$	$
Loan, prime rate plus 0.5%, payable in quarterly capital instalments of $300,000, maturing no later than 2003 (*)	**11,000**	11,300
Non-interest bearing loans, payable in annual instalments, maturing at various dates until 2007	**1,093**	1,260
Loans secured by machinery, prime rate plus 1.25%, payable in varying monthly instalments until 2001	**61**	220
Loan, lender's prime rate, payable in monthly capital instalments of $13,649, maturing in 2001	**82**	232
	12,236	13,012
Instalments due within one year	**1,510**	807
	10,726	12,205

(*) This loan and the short-term bank loans and acceptances are secured by a first rank mortgage on the universality of all present and future movable and immovable, tangible and intangible assets, for an amount of $70,000,000. The Company is subject to certain restrictions under the credit agreement. The Company was in compliance with these restrictions as at March 30, 2001.

The instalments on long-term debt for the next five years are $1,510,140 in 2002, $1,421,795 in 2003, $8,826,780 in 2004, $216,820 in 2005 and $200,455 in 2006.

14 - GOVERNMENT ASSISTANCE

In 1999, the Company obtained from the Department of Economic Development and Tourism of New Brunswick, a $2,000,000 contribution relating to investments in fixed assets.

This government contribution was reported and presented in the balance sheet as a deferred credit. This contribution could be redeemable in part if the Company does not maintain a certain number of jobs during a twelve-month period ending December 31, 2001.

NOTES TO CONSOLIDATED *Financial Statements*

March 30, 2001 and March 31, 2000
(Amounts in the tables are in thousands of dollars)

15 - CAPITAL STOCK

Authorized

Unlimited number of common shares, without par value, voting and participating

Unlimited number of preferred shares of first and second rank, without par value, which can be issued in one or more series, for which the directors will determine their number, designation, rights, privileges, conditions and restrictions

Preferred shares of second rank, series 1, annual and non-cumulative dividend of $0.06 per share, non-voting, non-participating, redeemable at the Company's option at the paid-up capital amount

	2001-03-30		2000-03-31	
	Number of shares	**Amount**	Number of shares	Amount
		$		$
Issued and fully paid				
Common shares				
Balance, beginning of year	**13,208,774**	**37,187**	13,284,674	37,397
Stock options exercised for cash			1,000	7
Redemption of shares for cash	**(24,300)**	**(68)**	(76,900)	(217)
Balance, end of year	**13,184,474**	**37,119**	13,208,774	37,187
Preferred shares of second rank, series 1				
Balance, beginning and end of year	**700,000**	**449**	700,000	449
		37,568		37,636

During the year, the Company has increased by 300,000 the number of common shares that can be issued by way of the stock option plan for directors and officers, bringing the number to 800,000. Of this number and since the inception of the plan, 3,000 options have been exercised. The period, terms and conditions of these options are determined by the Board of Directors provided that the options expire at the latest ten years following the date they are granted.

The Company's stock option plan is as follows:

	2001-03-30		2000-03-31	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
		$		$
Options outstanding, beginning of year	**336,500**	**12.76**	315,500	13.09
Granted	**435,000**	**6.48**	122,000	7.22
Exercised			(1,000)	6.60
Cancelled	**(2,000)**	**13.80**	(100,000)	7.10
Options outstanding, end of year	**(40,000)**	**13.20**		
	729,500	**9.00**	336,500	12.76

Summary of options outstanding as at March 30, 2001:

			Total outstanding		Total exercisable
Options	Exercise price	Weighted average exercise price	Weighted average contractual remaining life	Options	Weighted average exercise price
	$	$			$
492,000	6.25 - 9.00	6.53	8.7 years	143,000	6.83
237,500	13.20 - 17.00	14.09	6.0 years	207,500	14.08

NOTES TO CONSOLIDATED *Financial Statements*

March 30, 2001 and March 31, 2000

(Amounts in the tables are in thousands of dollars)

16 - COMMITMENTS

The Company has entered into long-term lease agreements, expiring at the latest in 2005, which call for lease payments of $2,814,403 for the rental of premises. Minimum lease payments for the next five years are $645,910 in 2002, $648,905 in 2003, $627,245 in 2004, $595,629 in 2005 and $296,714 in 2006.

17 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Primary financial instruments

Cash, accounts receivable, outstanding cheques, bank loans and acceptances, accounts payable and accrued liabilities are short-term financial instruments whose fair value approximates their carrying amount given that they will mature shortly.

The estimated fair value of the Company's long-term debt is determined based on analysis of the discounted value of cash flows, using interest rates in effect for the Company's similar borrowing agreements. The carrying amount is $12,236,433 ($13,011,855 as at March 31, 2000) and there is no material difference with the fair value.

Derivative financial instruments

As at March 30, 2001, the Company is committed, by virtue of forward exchange contracts, to sell $90,600,000 ($95,000,000 as at March 31, 2000) US dollars for Canadian dollars. The fair value of the derivative financial instruments is determined based on prices obtained from the Company's brokers for identical or similar financial instruments. The favorable (unfavorable) fair value of these forward exchange contracts are detailed as follows:

			2001-03-30
Term	**$ US**	**Average rate**	**Fair value**
	$		**$**
1 to 12 months	**69,600**	**1.4637**	**(7,821)**
13 to 18 months	**21,000**	**1.4971**	**(1,657)**
	90,600	**1.4714**	**(9,478)**

			2000-03-31
	$ US	Average rate	Fair Value
	$		$
1 to 12 months	54,000	1.5164	3,998
13 to 21 months	41,000	1.4570	1,064
	95,000	1.4908	5,062

18 - GEOGRAPHIC BREAKDOWN OF REVENUE

The Company's revenue can be broken down geographically as follows:

	2001-03-30	2000-03-31
	$	$
Canada	**36,093**	30,884
United States	**128,821**	123,444
	164,914	154,328

BOARD OF DIRECTORS

Serge Racine [1][3]
Chairman of the Board
Shermag Inc.

Jeffrey K. Casselman [1]
President and
Chief Executive Officer
Shermag Inc.

Charles Chamard [2][3]
Corporate Director

Arthur P. Earle, C.M., FEIC [1]
Consultant

Jean-Côme Gaudet [2]
Management Consultant

Jacques A. Nadeau [2][3]
President, Québec/Atlantic
Division, MédiSolution

Claude Pichette [1]
General Manager
Fondation Armand-Frappier

John D. Thompson [1]
Deputy Chairman
Montréal Trust

Jeanne Wojas [3]
Lawyer and Corporate Director

(1) Member of the Executive Committee
(2) Member of the Audit Committee
(3) Member of the Human Resources Committee

MANAGEMENT

Jeffrey K. Casselman
President and
Chief Executive Officer
Shermag Inc.

Larry Beasley
Vice-president
Sales & Marketing

Josée Bélanger
Corporate Secretary

Guy Cardinal
Vice-president, Production

Josée Girard
Comptroller

Denis Malaket
Vice-president, Administration

CORPORATE INFORMATION

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Auditors
Raymond Chabot Grant Thornton
Sherbrooke (Québec)

Bank
National Bank of Canada

Stock Registration
Shermag Inc.'s shares are listed on the Toronto Stock Exchange under symbol SMG.

Annual Information Form and General Information
To obtain a copy of the Annual Information Form submitted to the Québec Securities Commission and the Ontario Securities Commission or for any additional information regarding the Company, please send a written request to the Company's Secretary or to the Transfer Agent.

Annual General Meeting of Shareholders
Wednesday, August 22, 2001
at 16:00
Club Saint-Denis
257, rue Sherbrooke Est
Montréal (Québec)

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